

Message Text

UNCLASSIFIED

PAGE 01 PARIS 06298 01 OF 04 031709Z
ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 L-03 H-02 PA-02 PRS-01 AGRE-00 INT-05
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FM AMEMBASSY PARIS
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INFO AMEMBASSY BONN
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AMEMBASSY ROME
AMEMBASSY TOKYO
USDEL MTN GENEVA
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UNCLAS SECTION 01 OF 04 PARIS 06298

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E.O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 04879, FEBRUARY 17

1. SUMMARY

THE FRENCH ECONOMY CONTINUES TO DRIFT ALONG BUT
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PAGE 02 PARIS 06298 01 OF 04 031709Z

WITH VERY LITTLE WIND IN ITS SAILS. THE SLIGHT
COMMOTION CREATED AT THE BEGINNING OF LAST WEEK
WITH THE ANNOUNCEMENT OF THE DETERIORATION OF
THE EXTERNAL TRADE DEFICIT DURING JANUARY WAS
CALMED BY THE GOOD RESULTS ON THE PRICE FRONT.
THE KEY WORD FOR THE COMING FEW MONTHS IS
STABILIZATION -- ECONOMIC PROSPECTS ARE NOT

PARTICULARLY PROMISING, BUT NEITHER ARE THEY
VERY WORRISOME. END SUMMARY

2. CHAMBER OF COMMERCE FORESEES NO INCREASE IN
PRODUCTION FOR FIRST HALF 1977

THE CHAMBER OF COMMERCE AND INDUSTRY OF PARIS IN
ITS MOST RECENT LETTER ON THE ECONOMIC SITUATION
INDICATES THAT THE MAJORITY OF ECONOMIC ACTIVITY
INDICATORS SHOWED A MARKED DECLINE IN JANUARY WITH
RESPECT TO THE END OF 1976. THOSE SECTORS WHICH
SHOWED A DECLINE IN ACTIVITY WERE: TRANSPORT
(PARTICULARLY RAILWAYS), FINANCIAL AND STOCK MARKET
ACTIVITY, INDUSTRY AND TEMPORARY EMPLOYMENT.
ACTIVITY REMAINED STABLE ONLY IN THE ENERGY,
TELECOMMUNICATIONS, AND ADVERTISING SECTORS.

ON THE OTHER HAND, THIS ORGANIZATION FORESEES A
STABILIZATION OF ACTIVITY FOR THE FIRST HALF OF
THIS YEAR, ESPECIALLY FOR CAPITAL GOODS WHERE A
FAVORABLE EVOLUTION OF FOREIGN ORDERS IS EXPECTED AS
WELL AS A RECOVERY IN INVESTMENT OF SMALL AND
MEDIUM SIZED INDUSTRIES. PRODUCTION IN THE
CONSUMER GOODS SECTOR IS ALSO EXPECTED TO
STABILIZE IF THE PROSPECTS OF AN INCREASE IN
FOREIGN ORDERS MATERIALIZE. HOWEVER, DEMAND FOR
INTERMEDIATE GOODS IS EXPECTED TO REMAIN WEAK DURING
THE FIRST HALF.

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PAGE 03 PARIS 06298 01 OF 04 031709Z

THE CHAMBER OF COMMERCE CONSIDERS THAT THE PROSPECTS
FOR 1977 ARE PROMISING ONLY FOR THE AUTOMOBILE
AND ELECTRICAL CONSTRUCTION INDUSTRIES. FOR THE
OTHER SECTORS, THE PROSPECTS ARE GENERALLY MEDIOCRE,
AND EVEN BAD, AS IN THE CASE OF BUILDING.

3. COMPANY HEADS CONFIRM STABILIZATION OF PRODUCTION

COMPANY HEADS, INTERVIEWED IN FEBRUARY IN THE INSEE
MONTHLY INDUSTRIAL SURVEY, CONFIRMED THAT THEIR
PRODUCTION HAD LEVELED OFF. THE GROWTH OF PRODUCTION,
HOWEVER, REMAINED HIGHER THAN THAT OF DELIVERIES.
CONSEQUENTLY, THE INCREASE IN INVENTORIES
OF FINISHED PRODUCTS BETWEEN JANUARY AND FEBRUARY
WAS ABOVE THE NORMAL SEASONAL INCREASE. FOR
INDUSTRY AS A WHOLE, DEMAND WAS FAIRLY LIGHT, AND
BACK ORDERS, CONSIDERED LOWER THAN NORMAL,
CONTINUED TO DECLINE SLIGHTLY. HOWEVER. FOREIGN
ORDERS IMPROVED IN MOST BRANCHES. COMPANY HEADS

EXPECTED INDUSTRIAL PRODUCTION TO REMAIN AT ITS
CURRENT LEVEL DURING THE COMING MONTHS.

IN THE CAPITAL GOODS SECTOR PRODUCTION REMAINED AT
THE SAME LEVEL AS FOR THE THREE PREVIOUS MONTHS.
BACK ORDERS WERE CONSIDERED TO BE LOWER THAN NORMAL,

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PAGE 01 PARIS 06298 02 OF 04 031716Z
ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
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UNCLAS SECTION 02 OF 04 PARIS 06298

PARTICULARLY IN MACHINERY CONSTRUCTION
AND FOUNDRY. ON THE OTHER HAND, THEY REMAINED QUITE
AMPLE IN ELECTRICAL CONSTRUCTION. FOREIGN BACK
ORDERS HAD BEEN SLIGHTLY RECONSTITUTED, BUT THEIR
LEVEL REMAINED QUITE LOW. STOCKS HAD BECOME MUCH
HIGHER THAN NORMAL, ESPECIALLY IN FOUNDRY AND

MACHINE CONSTRUCTION. FOR THE COMING MONTHS
PRODUCERS FORESAW A CONTINUED STRONG GROWTH IN
ELECTRONIC CONSTRUCTION AND A SLIGHT RECOVERY
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PAGE 02 PARIS 06298 02 OF 04 031716Z

IN ELECTRIC CONSTRUCTION. HOWEVER THE PRODUCTION
DECLINE IN FOUNDRY SHOULD CONTINUE. FOR THE
SECTOR AS A WHOLE, ACTIVITY SHOULD REMAIN STABLE.

PRODUCTION IN THE CONSUMER GOODS SECTOR HAD RECENTLY
STABILIZED. IN THE HOUSEHOLD APPLIANCES, AUTOMOBILE
AND CLOTHING INDUSTRIES, THE GROWTH OF PRODUCTION
CONTINUED TO DECLINE. IN THE LEATHER SHOES
INDUSTRY GROWTH CONTINUED AT A MODERATE RATE,
BUT THERE WAS A CLEAR FALL IN PRODUCTION IN THE
TEXTILE INDUSTRY. BACK ORDERS DECLINED BUT WERE
CONSIDERED FAIRLY AMPLE. FOREIGN BACK ORDERS
REMAINED LOWER THAN NORMAL. STOCKS OF FINISHED
PRODUCTS HAD OBVIOUSLY BEEN RECONSTITUTED, BECOMING
TOO HIGH, ESPECIALLY IN AUTOMOBILES AND TEXTILES.
THEY HAD ALSO GREATLY INCREASED IN
HOUSEHOLD APPLIANCES WHERE THEY HAD PREVIOUSLY BEEN
CONSIDERED MUCH LOWER THAN NORMAL. INDUSTRIALISTS
EXPECTED TO REDUCE THEIR PRODUCTION OF AUTOMOBILES
AND OF TEXTILES DURING THE COMING MONTHS. THEY
FORESAW A STABILIZATION IN HOUSEHOLD APPLIANCES
AND A MODERATE GROWTH IN CLOTHING AND IN LEATHER
SHOES.

FOR THE SECOND MONTH IN A ROW PRODUCTION FELL FOR
THE ENTIRE INTERMEDIATE GOODS SECTOR. PRODUCTION
CONTINUED TO REGISTER A SHARP DECLINE IN THE
STEEL AND CONSTRUCTION MATERIAL INDUSTRIES,
WHILE IN THE CHEMICAL-RUBBER AND WOOD-FURNITURE
INDUSTRIES PRODUCTION INCREASED ONLY AT A SLIGHT
RATE. ON THE OTHER HAND, THE DECLINE IN
PRODUCTION SEEMED TO HAVE BEEN INTERRUPTED IN THE
PAPER-CARTON INDUSTRY, AND PRODUCTION
CONTINUED TO GROW RAPIDLY IN THE GLASS INDUSTRY.
THERE WAS LITTLE CHANGE IN BACK ORDERS; THEY
WERE CONSIDERED TO BE VERY MUCH BELOW NORMAL
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PAGE 03 PARIS 06298 02 OF 04 031716Z

EXCEPT IN THE GLASS INDUSTRY WHERE THEY APPEARED
TO BE VERY AMPLE. FOREIGN BACK ORDERS HAD
IMPROVED SINCE THE BEGINNING OF THE YEAR. STOCKS

OF FINISHED PRODUCTS VARIED VERY LITTLE AND
REMAINED NEAR TO NORMAL. THE REDUCTION OF PRODUCTION
OUGHT TO SLOW DOWN IN CERTAIN BRANCHES. A MORE
MODERATE GROWTH FOR THE GLASS INDUSTRY IS EXPECTED
IN COMING MONTHS.

4. FRANCE WILL NOT REQUIRE ANY MODIFICATION OF THE
SNAKE AS A CONDITION FOR ITS REENTRY

PM BARRE DECLARED AFTER HIS MEETING WITH ROY
JENKINS, NEW PRESIDENT OF THE EUROPEAN COMMISSION,
THAT FRANCE HAD NO INTENTION OF ASKING FOR A
RELAXATION OF THE MONETARY RULES REGARDING THE
SNAKE. HE ALSO DECLARED THAT FRANCE INTENDS TO
REJOIN THE SNAKE WHEN SHE IS ABLE, BUT NOT BEFORE
THE BARRE PLAN HAS BORNE ITS FRUIT.

THIS DECLARATION BY M. BARRE MARKED A CHANGE IN
ATTITUDE ON THE PART OF FRENCH AUTHORITIES
CONCERNING EUROPEAN MONETARY PROBLEMS. IN MARCH
1976 M. FOURCADE, AT THAT TIME MINISTER OF ECONOMICS
AND FINANCE, HAD JUSTIFIED THE EXIT OF THE FRANC FROM
THE SNAKE ON THE BASIS THAT THE PARTNER
COUNTRIES HAD BEEN OPPOSED TO THE REMODELING OF
THE WORKING RULES OF THE SNAKE WHICH HE HAD
PROPOSED AND WHICH CONCERNED THE SETTING-UP OF THE
CONDITIONS OF INTERVENTION BY THE CENTRAL BANKS
AND THE ENLARGEMENT OF THE MARGINS OF AUTHORIZED
FLOATING.

ON THE OTHER HAND, BARRE'S OFFICE HAS UNDERLINED
THAT THE REFUSAL OF FRANCE TO REENTER THE SNAKE
AT THE CURRENT TIME HAS NOTHING TO DO WITH THE
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PAGE 04 PARIS 06298 02 OF 04 031716Z

RELATION OF THE FRANC WITH RESPECT TO THE DM
OR THE DOLLAR AND THAT IT DOES NOT SIGNIFY THAT
THE GOF CONSIDERS THE FRANC TOO WEAK VIS-A-VIS

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PAGE 01 PARIS 06298 03 OF 04 031725Z
ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
EB-08 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
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UNCLAS SECTION 03 OF 04 PARIS 06298

THESE CURRENCIES. INSTEAD, THE CURRENT RATE FOR THE
FRANC IS CONSIDERED TO BE COMPLETELY REALISTIC.

5. 1977 SUPPLEMENTARY BUDGET FORESEES FF 10 BILLION
DEFICIT

THE COUNCIL OF MINISTERS CURRENTLY HAS UNDER
DISCUSSION THE 1977 SUPPLEMENTARY FINANCE BILL WHICH
WILL BE PRESENTED AT THE NEXT PARLIAMENTARY SESSION
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PAGE 02 PARIS 06298 03 OF 04 031725Z

THIS SPRING. ALTHOUGH THE 1977 BUDGET WAS
ORIGINALLY PRESENTED IN EQUILIBRIUM, AS WERE ITS
TWO PREDECESSORS, IT IS NOW ESTIMATED THAT IT WILL
RUN A DEFICIT OF FF 10 BILLION, AS COMPARED TO
DEFICITS OF FF 38 BILLION IN 1975 AND FF 20
BILLION IN 1976. ADDITIONAL SPENDING OF
FF 16-18 BILLION WILL BE ALLOTTED IN THE
SUPPLEMENTARY BUDGET. THIS WILL ALLOW FOR FF 10-12
BILLION TO COVER THE EFFECT OF INFLATION PLUS

ADDITIONAL GOVERNMENT CREDITS OF FF 5 BILLION TO PUBLIC ENTERPRISES TO COVER THE DECLINE IN THEIR REVENUES DUE TO THE FREEZE ON PUBLIC TARIFFS UNTIL APRIL AND THE SUBSEQUENT LIMIT OF 6.5 PERCENT UNTIL THE END OF THE YEAR. PART OF THIS INCREASED SPENDING WILL BE COVERED BY THE REVISED INCREASE IN EXPECTED REVENUES.

6. AIDED BY THE DECREASE IN THE VALUE ADDED TAX, JANUARY PRICES INCREASED BY ONLY 0.3 PERCENT.

IN JANUARY, FOR THE SECOND MONTH IN A ROW, THE RATE OF PRICE INCREASE WAS 0.3 PERCENT, BASED ON THE INSEE INDEX OF RETAIL PRICES. THE MAIN FACTOR CONTRIBUTING TO THIS LOW RATE OF INFLATION DURING THE FIRST MONTH AFTER THE THREE MONTH PRICE FREEZE WAS THE REDUCTION OF THE NORMAL RATE OF THE VALUE ADDED TAX FROM 20 TO 17.6 PERCENT. THIS ACCOUNTED FOR AN 0.4 POINT DECLINE IN JANUARY PRICES.

FOR THE FIRST TIME SINCE JANUARY 1973 THE PRICES OF MANUFACTURED PRODUCTS DECLINED. THIS DECLINE OF 0.2 PERCENT COMPARES TO A 0.7 PERCENT INCREASE IN THE PRICES OF BOTH AGRICULTURE PRODUCTS AND SERVICES. A LARGE PART OF THE INCREASE FOR SERVICES CAN BE EXPLAINED BY RENTS WHICH INCREASED BY 2.8 PERCENT. EXCLUDING RENTS, SERVICES WOULD HAVE UNCLASSIFIED

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PAGE 03 PARIS 06298 03 OF 04 031725Z

INCREASED BY ONLY 0.2 PERCENT.

THERE WAS A LARGE DISCREPANCY BETWEEN THE GOF'S INDEX AND THAT OF THE CGT, THE COMMUNIST-CONTROLLED LABOR UNION, WHICH SHOWED AN INCREASE IN RETAIL PRICES OF 0.9 PERCENT FOR JANUARY. THE PRINCIPAL FACTOR EXPLAINING THIS DISCREPANCY IS THE MANNER IN WHICH FOOD PRICES ARE HANDLED. THE INSEE INDEX AVERAGES OUT ANY TEMPORARY INCREASE IN FOOD PRICES BY MEANS OF A 12-MONTH MOVING AVERAGE, WHEREAS THE CGT INDEX TAKES ANY PRICE INCREASE FULLY AND IMMEDIATELY INTO ACCOUNT. THUS, WHILE THE INSEE INDEX SHOWED A 4 PERCENT INCREASE IN THE PRICE OF VEGETABLES IN JANUARY, THE CGT INDEX SHOWED A 23 PERCENT INCREASE.

UNTIL MAY AT THE EARLIEST, THE PRICE RESULTS ARE NOT EXPECTED TO BE PARTICULARLY PROMISING. THIS TAKES INTO ACCOUNT SEVERAL FACTORS. THE DECREASE IN THE VALUE-ADDED TAX WILL ACCOUNT FOR A DECREASE IN PRICES OF ONLY 0.1 PERCENT IN BOTH FEBRUARY AND MARCH.

ALTHOUGH THE PRICE FREEZE WAS OFFICIALLY OVER IN JANUARY, IN MOST CASES THE FIRST PART OF THE PRICE INCREASES PERMITTED UNDER THE AGREEMENTS TO MODERATE PRICES WENT INTO EFFECT ONLY IN FEBRUARY. THE FEBRUARY INDEX WILL ALSO REFLECT THE PRICE INCREASE OF PETROLEUM PRODUCTS WHILE THE MARCH INDEX WILL SHOW THE 2 PERCENT INCREASE IN AUTOMOBILE PRICES. FINALLY, THE FREEZE ON PUBLIC TARIFFS WILL BE REMOVED IN APRIL.

7. TRADE DEFICIT WORSENS IN JANUARY

FRANCE'S SEASONALLY ADJUSTED TRADE DEFICIT INCREASED IN JANUARY TO FF 2.4 BILLION, UP FROM FF 1.3 BILLION IN DECEMBER. EXPORTS WERE FF 25.3 BILLION AND UNCLASSIFIED

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PAGE 04 PARIS 06298 03 OF 04 031725Z

IMPORTS WERE FF 27.7 BILLION. THE RATE OF EXPORT COVER WAS 91.3 PERCENT.

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PAGE 01 PARIS 06298 04 OF 04 031733Z
ACTION EUR-12

INFO OCT-01 EA-09 IO-13 ISO-00 AID-05 CIAE-00 COME-00
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UNCLAS SECTION 04 OF 04 PARIS 06298

CERTAIN TEMPORARY FACTORS SUCH AS THE CONTINUED EFFECTS OF THE DROUGHT AND ANTICIPATORY OIL PURCHASES CONTRIBUTED TO THE SIZE OF THE DEFICIT, BUT EVEN WHEN THEY ARE DISCOUNTED, THE DEFICIT REMAINS SIZABLE. FOR EXAMPLE, FRANCE HAD A FF 750 MILLION DEFICIT FOR FOOD AND AGRICULTURE PRODUCTS IN JANUARY (OF WHICH FF 130 WAS FOR COFFEE) AS COMPARED TO A NORMAL MONTHLY SURPLUS OF FF 200
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PAGE 02 PARIS 06298 04 OF 04 031733Z

MILLION. THE OIL BILL IN JANUARY WAS FF 400 MILLION HIGHER THAN THAT OF DECEMBER WHICH MAY HAVE BEEN DUE BOTH TO ANTICIPATORY PURCHASES AND DELAYS IN OFF-LOADING OIL SUPPLIES IN DECEMBER IN ORDER TO MINIMIZE THE 1976 OIL BILL. IN ANY CASE, DISCOUNTING THESE TEMPORARY FACTORS, FRANCE RAN A MINIMUM DEFICIT IN JANUARY IN THE ORDER OF 1.2 BILLION. THIS IMPLIES A DEFICIT OF FF 14 BILLION FOR THE YEAR UNLESS THERE ARE SOME MAJOR CHANGES IN THE UNDERLYING TREND OF RECENT MONTHS.

8. NEW GOF AIDS TO EXPORTING FIRMS ANNOUNCED

MINISTER FOR FOREIGN TRADE ANDRE ROSSI ANNOUNCED THAT THE GOF WOULD MAKE AVAILABLE A NEW TRANCHE OF FF 3 BILLION FOR THE FINANCING OF INVESTMENTS OF EXPORTERS, IN PARTICULAR SMALL AND MEDIUM-SIZED FIRMS. THIS PROCEDURE, INSTITUTED IN MARCH 1974, MAKES SUBSIDIZED FUNDS AVAILABLE TO FIRMS WHICH PROMISE TO INCREASE WITHIN FOUR YEARS THE SHARE OF THEIR EXPORT SALES BY 5 PERCENT WITH RESPECT TO THEIR TOTAL TURNOVER. THESE LOANS ARE NOT SUBJECT TO THE CONTROLS ON CREDIT EXPANSION SO THAT IN TIMES OF TIGHT CREDIT IT MAY BE AN IMPORTANT SOURCE OF FUNDS TO SMALLER FIRMS WHICH MAY HAVE MORE DIFFICULTY OBTAINING ACCESS TO CREDIT THAN LARGER FIRMS. TO DATE, HOWEVER, OF THE FF 10 BILLION ALLOTTED UNDER THIS PROGRAM, FF 2 BILLION

HAS NOT BEEN UTILIZED, REPORTEDLY BECAUSE OF THE
STRINGENT COMMITMENTS REQUIRED TO GET A LOAN.

THE GOF HAS INTRODUCED SEVERAL MEASURES TO MAKE
THIS PROGRAM MORE ATTRACTIVE. THE RATE OF
INTEREST ON THESE LOANS WILL HENCEFORTH
BE 2 POINTS LOWER THAN THE RATE ON ORDINARY
LOANS OF THE CREDIT NATIONAL, A GOVERNMENT
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PAGE 03 PARIS 06298 04 OF 04 031733Z

CONTROLLED DEVELOPMENT BANK. FURTHERMORE,
IT WILL NOW BE POSSIBLE FOR THE BENEFITING
COMPANIES TO TAKE INTO ACCOUNT THEIR ENTIRE
INVESTMENT PROGRAM EVEN IF THE PROGRAM IS NOT
COMPLETELY EXECUTED IN THE YEAR WHEN THE LOAN
IS GRANTED. THOSE FIRMS WHICH WISH TO
UNDERTAKE A SECOND LOAN UNDER THIS PROGRAM
WILL NOT BE SUBJECT TO SUCH A HIGH EXPORT-
TURNOVER RATIO.

THE GOF HAS ALSO ADOPTED A SECOND MEASURE OF
FINANCIAL AID TO EXPORTS WHICH INVOLVES
TREASURY LOANS TO FINANCE EQUIPMENT PROJECTS. A
TOTAL OF FF 1.8 BILLION HAS BEEN COMMITTED
FOR THIS PROGRAM, 20 PERCENT MORE THAN LAST YEAR.
9. OTHER RERORTS SUBMITTED DURING THE PERIOD

TELEGRAMS - PARIS

05923 VISIT BY FEDERAL RESERVE EXAMINERS 3/1
07587 CUSTOMS REQUEST TO DUPLICATE TRAINING
FILM 2/28
04889 REQUEST FOR TELEPHONE NUMBERS 2/17

AIRGRAMS

PARIS

A-64 FRENCH FOREIGN EXCHANGE HOLDINGS 2/25
A-61 TRADE WITH COMMUNIST AREAS 2/22
A-60 FRENCH FOREIGN EXCHANGE HOLDINGS 2/22
A-59 TRADE WITH SOVIET BLOC, ALBANIA,ETC. 2/22
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